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November 20, 1970

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Prices and Incomes Commission

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FOREWORD

Following discussions with representatives of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to exercise a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep export industries under review and when developments in one of these industries impaired the general price restraint program, appropriate solutions would be sought.

At a Federal-Provincial Conference of First Ministers, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

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Following discussions with major constituents of the Canadian business community, the Prices and Incomes Commission called a National Conference on Price Stability to obtain a consensus on a program of price restraint. Those present at the conference, held in Ottawa on Feb. 9-10, indicated that, in their view, Canadian business firms would be willing to undertake a meaningful degree of restraint in their pricing policies in 1970. There was broad agreement that business firms generally, if called upon to do so, would reduce the number and size of price increases they would normally make in 1970 and would ensure that price increases were clearly less than the amount needed to cover increases in costs.

It was agreed that the Commission would keep certain industries under review and when it appeared that one of these industries departed from the general price restraint program, appropriate representations would be made.

At a Federal-Provincial Conference on Price Stability, held in Ottawa on Feb. 16-17, 1970, the Heads of Government endorsed the Commission's plan. Governments expressed the hope that sanctions would not be required but agreed that if necessary they would use such means as are within their control to deal with cases of serious non-compliance with the pricing criteria.

CHILDREN'S LEATHER FOOTWEAR

Introduction

During the summer of 1970, the Prices and Incomes Commission learned of increases in the wholesale price of certain brand name children's leather footwear. These increases at the wholesale level are reflected in higher retail prices. A decision was made to undertake a price review to determine whether these price increases complied with the Commission's price restraint criteria.

The market for children's leather footwear is served by 26 domestic producers and by a number of importers. The Commission's investigation indicated that the majority of these suppliers had increased their prices.

The three companies who supply in excess of 50 per cent of the market for children's leather footwear are Savage Shoe Ltd., Bata Footwear Co. and the Brown Shoe Co. Savage and Brown increased prices on existing lines and a detailed review was made of the operations of these two firms. Other footwear manufacturers were also contacted during the course of the study.

The manufacture of children's leather footwear is relatively labor intensive with approximately 40 per cent of factory cost consisting of direct labor. Almost as much labor is required to make a pair of children's leather shoes as is used to make a pair of adult shoes, although the latter may sell for several times the price of the former.

Leather is also a relatively important cost element in the manufacturing process. It is considerably more expensive than the various alternative materials from which low cost imported children's footwear is manufactured.

Competition from casual footwear has increased sharply in recent years. Much of this footwear is imported from countries where wage rates are substantially below those in Canada. Also, this type of footwear utilizes low cost materials, such as fabric, plastic and rubber. As a result, children's casual shoes may be purchased for much less money than leather shoes.

Because of these developments, the market for children's leather footwear has fallen off. Canadian production has also declined and is estimated to be about $20,000,000 in 1970. The reduction in output has resulted in certain factories being closed.

Prices

Savage Shoes Ltd. increased prices on selected lines representing less than 10 per cent of its total output of children's leather footwear by from nine to 12 per cent, depending on the type. The Brown Shoe Co. also increased a number of its prices by six per cent. Bata Footwear has not increased prices during 1970, although it has dropped its low-priced line because of declining margins.

Costs

All companies in this industry have experienced sharp increases in labor costs, largely due to the impact of rising minimum wage levels. Although the labor content

of this type of footwear is high, the ability of shoe manufacturers to mechanize their operations further is limited.

Shoe manufacturers are also experiencing increased costs for power, municipal taxes, leather and certain other raw materials and supplies.

The price increases implemented by Savage Shoe Ltd. and Brown Shoe Co. of Canada Ltd. during 1970 for children's leather footwear will increase the companies' incomes by a relatively small amount (well under $100,000) and substantially below cost increases in 1970. In fact, the increase in labor costs in 1970 exceeds the additional revenue. The industry as a whole is experiencing the same cost pressures as outlined above and has followed the same approach to pricing.

CONCLUSION

In view of the fact that the additional revenues resulting from the price increases for children's leather footwear are clearly less than the cost increases in 1970, these price increases meet the agreed criteria.